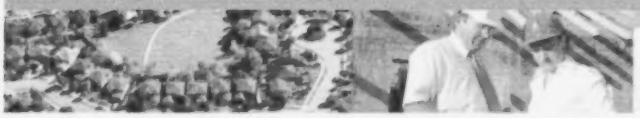
HOUSING MARKET OUTLOOK

Saskatoon CMA



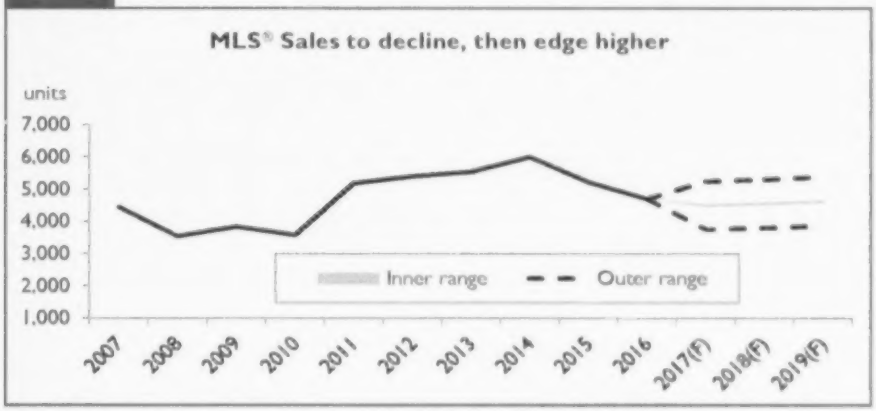
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2017

Figure 1

Source: CMHC, CMHC Forecast (F)

Figure 2



Source: CREA, CMHC Forecast (F)

Highlights[1]

- Modest gains in housing starts expected over the forecast horizon.
- After declining in 2017, average MLS® price and sales to increase modestly.
- Rental apartment vacancies to remain elevated in 2017, but move lower in 2018 and 2019.

New home market: Housing starts forecast to rise modestly through 2019

Total housing starts in the Saskatoon Census Metropolitan Area (CMA) are on pace to end 2017 slightly higher than in the previous year, courtesy of continued gains in single-detached construction. Improving labour market conditions and continued population growth have supported demand for new housing units this year. In 2018, housing starts are forecast to hold relatively steady, before ranging slightly higher in 2019 when gains in employment and population growth are expected to notch higher.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

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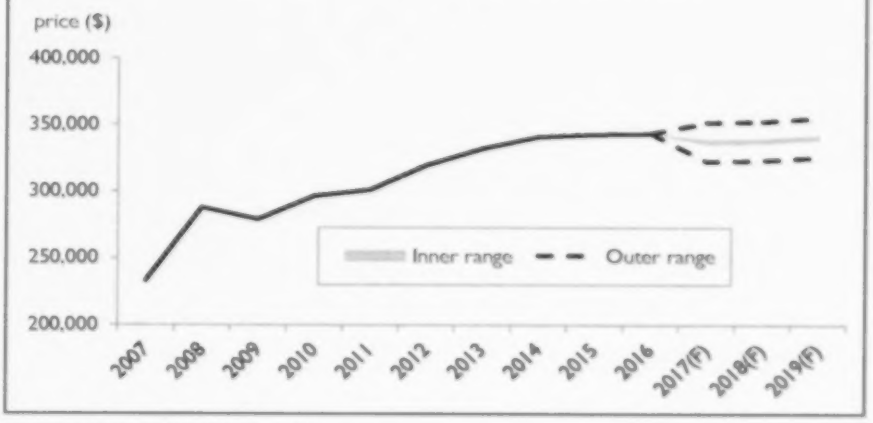
For the second consecutive year, single-detached starts in the Saskatoon CMA are on track to outperform by year-end. Declining new inventory in the singles sector has allowed construction activity to move ahead this year, with the most gains occurring in areas outside city limits. With increasing levels of units under construction this year and elevated resale supply, single-detached starts are forecast to increase modestly in 2018 and 2019.

After a 37% decline in the previous year, multi-unit[1] starts are forecast to decline again in 2017, but only modestly. A high level of apartment inventory has slowed the pace of multi-family construction this year, with August year-to-date totals down 22% from a year earlier. In addition, CMHC's Housing Market Assessment framework continued to detect high evidence of overbuilding in Saskatoon's market during the second quarter of 2017, in large part due to the multiples sector. Elevated inventory levels are expected to further slow the pace of multi-family starts in 2018. However, construction in the multiples sector is forecast to rebound in 2019, following a slightly higher rate of employment and population growth.

Figure 3

Gains in the average MLS® price to be modest



Source: CREA, CMHC Forecast (F)

Resale market: MLS® sales to decline in 2017, edge up in 2018 and 2019

Saskatoon's MLS® sales are forecast to decline in 2017 as the impact of job losses in the previous year, tighter mortgage rules and rising mortgage rates reduces demand for resale homes. While this impact is expected to extend into 2018, resale activity in the Saskatoon market is forecast to be slightly higher and continue to increase in 2019 as well. Demand for existing homes over the next two years will be supported by improving labour market conditions and continued household growth.

Elevated listings on the resale market have kept market conditions tilted towards buyers this year, which has maintained downward pressure on the average MLS® price. Barring any lower price composition effects, resale prices are forecast to rise modestly in 2018 and 2019, albeit at a rate lower than the increase in inflation.

Rental market: Apartment vacancy rate to decline over forecast period

The apartment vacancy rate[2] in the Saskatoon CMA is forecast to decline slightly in 2017, but remain historically high. Sharp gains in population in 2016 will support demand for rental housing this year. On the supply side, the more than 630 rental apartments completed between Q3 2016 and Q2 2017 will increase supply, as will available units in the secondary rental market. This will prevent a significant decline in the vacancy rate in 2017. Nonetheless, higher employment and population growth will support rental demand and push the apartment vacancy rate lower in 2018 and 2019.

The average two-bedroom rent is forecast to decline slightly in 2017 as landlords continue to offer discounts and incentives in response to a historically high vacancy rate. However, rents will stabilize in 2018 and 2019 as the vacancy rate further declines.

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[1] Multi-unit starts include semi-detached, apartment and row units.

[2] In structures with three or more units purpose-built for the rental market.

Economic trends: Continued employment and population growth through 2019

After contracting in 2016, total employment in Saskatoon is forecast to increase in 2017. A return to positive GDP growth for Saskatchewan this year will support expansion in Saskatoon's labour market. However, with the labour force increasing at a faster rate than job gains, the unemployment rate will be higher this year than in the previous year. A similar pace of employment growth is projected for 2018 and 2019, supported by gains in construction and manufacturing activity.

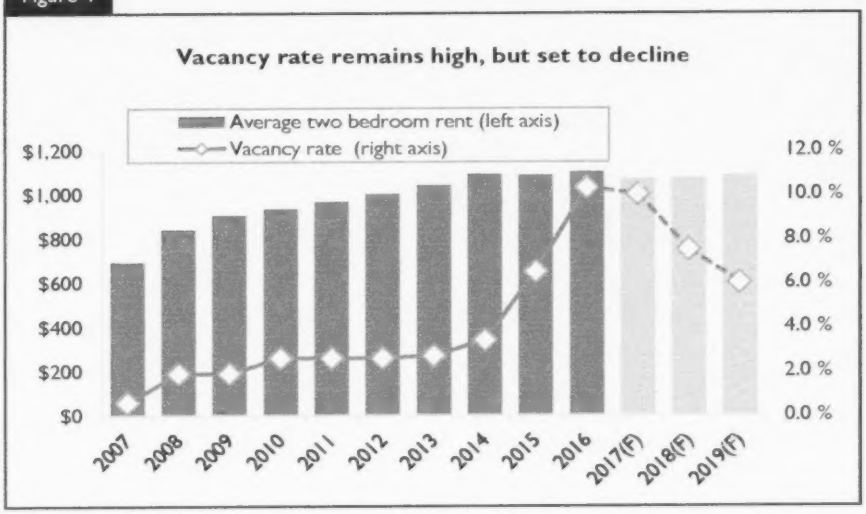
In 2016, Saskatoon's population grew at the fastest rate since 2013. This was due to an increase in total net migration, particularly a higher inflow of international migrants. In 2017, population growth is forecast to return to a more moderate pace and hold relatively steady in 2018, before increasing slightly in 2019. Throughout the forecast horizon, an elevated level of net migration will support population growth and household formation.

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

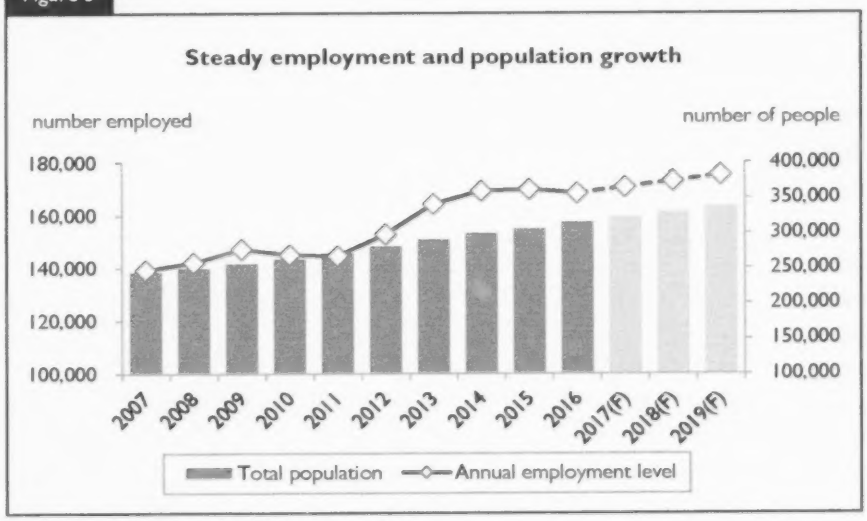
In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Figure 4



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (F)

Figure 5



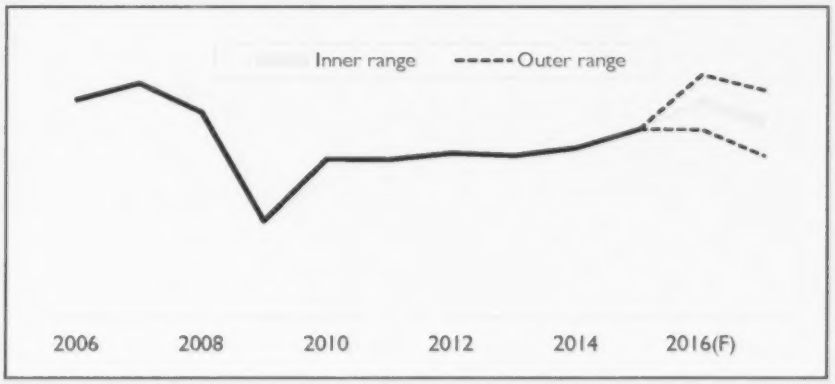
Source: Statistics Canada, CMHC Forecast (F)

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Saskatoon CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	1,577	1,000	1,092	1,080	1,200	1,100	1,220	1,120	1,240
Multiples	1,954	1,293	817	640	960	630	950	660	990
Starts - Total	3,531	2,293	1,909	1,740	2,140	1,760	2,150	1,800	2,200
Resale Market									
MLS® Sales	5,996	5,215	4,693	4,455	4,530	4,510	4,590	4,585	4,665
MLS® Average Price($)	341,061	342,727	343,534	335,130	339,120	336,000	340,000	338,490	342,510
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	3.4	6.5	10.3	10.0	7.5	6.0
Two-bedroom Average Rent (October)($)	1,091	1,087	1,100	1,070	1,075	1,085
Economic Overview						
Population	298,744	305,508	315,150	322,500	330,030	337,870
Annual Employment Level	169,100	169,700	168,300	170,700	172,900	175,300

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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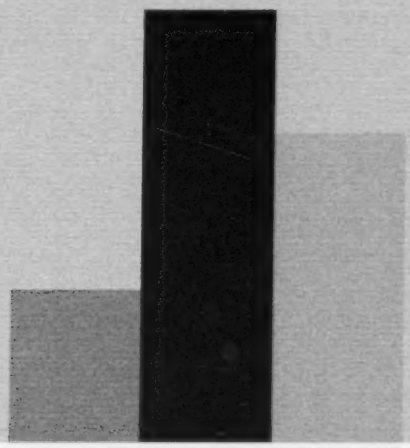

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